

Q 1. A client Mr P has bought March series contract and another client Mr Q has sold March series contract on Nifty futures. This has been done through the same broker. Will this qualify as a calendar spread ?

- ☐ Yes
☒ No

✓ CORRECT ANSWER



Explanation:

Calendar spread position is a combination of two positions in futures on the same underlying - long on one maturity contract and short on a different maturity contract. The above example is not a Calendar spread because here we have the same expiry ie. March series. Also the spread has to be done by the same client.

Q 2. The adjustment factor for a stock which issues a Bonus in the ratio A : B is _____.

- ☒ $(A + B) / B$
☐ $(A - B) / B$
☐ $(A + B) \times B$
☐ $(A - B) \times A$

✓ CORRECT ANSWER



Explanation:

The adjustment factor for :

Bonus Ratio – A: B Adjustment factor: $(A+B)/B$

Stock Splits and Consolidations Ratio – A: B Adjustment factor: A/B

Right Ratio – A: B and Issue price of rights is S. Adjustment factor: $(P-E)/P$ Where P = Spot price on last cum date $E = (P-S) \times A / (A+B)$

Q 3. The spot price of a stock is Rs 200. A trader buys the Rs 195 strike price call option by paying a premium of Rs 10. On expiry the settlement price is Rs 220. What is the net profit for the trader ?

- ☐ Rs 25
☒ Rs 15
☐ Rs 10
☐ NIL

✓ CORRECT ANSWER



Explanation:

The Rs 195 strike price call option settlement price is Rs 220 - So there is profit of Rs 25 (220 - 195)

He has paid Rs 10 as premium, so his net profit will be Rs 15 (25 - 10)

Q 4. The theoretical future price is considered for _____ is case a futures contract is not traded during the day.

- ☐ the opening price
☒ the daily mark to mark settlement price
☐ premium settlement
☐ last traded price

✓ CORRECT ANSWER



Q 5. Delivery based settlement in single stock futures is provided by _____.

- ☐ BSE
- ☐ NSE
- ☐ OTCEI
- ☒ Both BSE and NSE

✓ CORRECT ANSWER



Explanation:

SEBI has allowed physical settlement of futures transactions. OTCEI (Over the Counter Exchange of India) is no longer functional.

Q 6. The Final Settlement Price in Options is the Closing price of such underlying security on the last trading day of the options contract - True or False.

- ☒ True
- ☐ False

✓ CORRECT ANSWER



Explanation:

Final exercise settlement price for option contracts: Final Exercise settlement price for an option contract shall be based on the last 30 minutes volume weighted average price of the relevant underlying security/index across Exchanges, on the last trading day of the options contract.

Q 7. Nifty50 consists of securities having _____ market capitalisation stocks.

- ☒ Large
- ☐ Medium
- ☐ Small
- ☐ All of the above

✓ CORRECT ANSWER



Q 8. A bull spread can be created only by _____.

- ☐ Buying and selling Futures
- ☐ Buying and selling Cash and Futures
- ☒ Buying and selling Options
- ☐ Buying and selling ETF's

✓ CORRECT ANSWER



Explanation:

A bull spread is created when the underlying view on the market is positive but the trader would also like to reduce his cost on position. So he takes one long call position with lower strike and sells a call option with higher strike.

Q 9.

On expiry, the settlement price for Wipro Ltd. will be the _____ .

- ☐ Last half hour weighted average price of Wipro Futures
- ☒ Closing price of Wipro in the cash market
- ☐ Opening price of Wipro in the cash market
- ☐ The last traded price of Wipro in the cash market

✓ **CORRECT ANSWER**



Explanation:

The final settlement price is the closing price of the relevant underlying security in the Capital Market segment on the last trading day (expiry) of the futures contracts. (The Daily Settlement price is the closing price of the futures contract for the trading day)

Q 10.

_____ is at the lowest level of hierarchy of a trading firm.

- ☐ Speculator
- ☒ Dealer
- ☐ Branch Manager
- ☐ Regional Manager

✓ **CORRECT ANSWER**



Explanation:

In the Futures and options trading software, trading member will have a provision of defining the hierarchy amongst users of the system. This hierarchy comprises:

- Corporate Manager
- Branch Manager and
- Dealer

Q 11.

Mr Mohit buy 3 Call options of strike price 200 when the spot price was 190 at a premium of Rs 16. Will he have to pay STT ?

- ☐ Yes
- ☒ No

✓ **CORRECT ANSWER**



Explanation:

STT - Securities Transaction Tax is paid only by the seller in case of derivative contracts.

Q 12.

The open position of a Trading Member is arrived by _____.

- ☐ Adding up all his proprietary positions
- ☐ Adding up all his clients net outstanding positions
- ☒ Adding both - his proprietary positions and all his clients net outstanding positions
- ☐ None of the above

✓ **CORRECT ANSWER**



Explanation:

The open position of a Trading Member (Stock Broker) is arrived at by adding up his proprietary open position and clients' open positions, in the contracts which they have traded.

- Q 13. An investor has ICICI Bank shares in his portfolio. He wants to protect against the downside in this stock as he thinks the market may go down. What should he do ?
- ☒ Buy ICICI Put Option
 - ☐ Buy ICICI Call Option
 - ☐ Buy Nifty futures
 - ☐ Buy Bank Nifty

✓ CORRECT ANSWER



Explanation:

Buying a Put option means he has gone bearish. So any fall in ICICI Bank shares will result in profits in the Put option contract and this will negate the loss in cash market.

- Q 14. A spread that is designed to profit if the prices goes down is called _____.

- ☐ Hedge Spread
- ☐ Arbitrage Spread
- ☐ Bull Spread
- ☒ Bear Spread

✓ CORRECT ANSWER



Explanation:

In a bear spread, the trader is bearish on the market and so he shorts a low strike high premium call option. The risk in a naked short call is that if prices rise, losses could be unlimited. So, to prevent his unlimited losses, he longs a high strike call and pays a lesser premium.

- Q 15. Time value of an option is the difference between _____.

- ☐ its Strike price and premium
- ☐ its strike price and spot price
- ☐ its premium and spot price
- ☒ its premium and intrinsic value

✓ CORRECT ANSWER



Explanation:

Option premium consists of two components - intrinsic value plus the time value.

So the time value can be known by the difference in option premium and intrinsic value.

- Q 16. In the F&O segment of NSE one can trade in the following derivative instruments except _____.

- ☐ index based futures
- ☐ individual stock options
- ☐ index based options
- ☒ individual warrant options

✓ CORRECT ANSWER



Explanation:

In the F&O segment of NSE, one can trade in

- Index based futures like Nifty or Bank Nifty,

- Individual stock options like Reliance Industries Call / Put options etc.

- Index based options like Nifty Call / Put.

Options on Warrants are not traded on NSE F&O segment.

Q 17. What will be the payoff if a stock future was bought at Rs 100 and sold at Rs 87 ? The lot size is 1000 shares.

- ☐ NIL
- ☐ + 13000
- ☒ - 13000
- ☐ - 8700

✓ CORRECT ANSWER

Explanation:

There will be a negative pay off as there is loss.

Rs 100 - Rs 87 = Rs 13 x 1000 lot size = Loss of Rs 13000.



Q 18. The price at which the underlying asset can be bought or sold on exercise of an option is called _____ .

- ☐ Spot Price
- ☐ Risk Premium
- ☒ Strike Price
- ☐ Option Premium

✓ CORRECT ANSWER

Explanation:

Strike price or Exercise price is the price per share for which the underlying security may be purchased or sold by the option holder.



Q 19. All types of investors should allot some portion of their portfolio to derivative products in order to increase the portfolio returns irrespective of their risk tolerance levels - State True or False ?

- ☐ True
- ☒ False

✓ CORRECT ANSWER

Explanation:

Derivatives are ideally used as a hedging product and not investment products. Also, as a stand alone investment, they can prove to be very risky. So investors who do not want to take risks, senior citizens etc. should not trade / invest in derivative products.



Q 20. Speculator accepts the risks in search of profits - State True or False?

- ☐ False
- ☒ True

✓ CORRECT ANSWER

Explanation:

Speculators try to predict the future movements in prices of stocks, commodities, currencies etc. and accordingly buy or sell. There is risk in such activities but the speculators take these risks in order to make profits.



Q 21. In India, the clearing and settlement of derivatives trades would be through _____ .

- ☐ State Bank of India
- ☐ Euroclear
- ☒ SEBI approved Clearing Corporation / Clearing House
- ☐ The Interbank Clearing House

✓ **CORRECT ANSWER**



Explanation:

Clearing Corporation/ Clearing House is responsible for clearing and settlement of all trades executed on the F&O Segment of the Exchange.

The clearing and settlement of derivatives trades would be through a SEBI approved clearing corporation /house. Clearing corporations/houses complying with the eligibility conditions as laid down by the L. C. Gupta committee have to apply to SEBI for grant of approval.

Q 22. In a calendar spread transaction, the trader takes opposite position in two futures contract with _____ .

- ☐ two different underlying assets and same delivery month
- ☐ two differently delivery months and two different underlying assets
- ☒ two differently delivery months and same underlying asset
- ☐ one stock and one index of same delivery months

✓ **CORRECT ANSWER**



Explanation:

Calendar spread position is a combination of two positions in futures on the same underlying - long on one maturity contract and short on a different maturity contract. For instance, a short position in near month contract coupled with a long position in far month contract is a calendar spread position.

Q 23. Excess of premium in an option over the intrinsic value is known as the time value - State True or False ?

- ☐ False
- ☒ True

✓ **CORRECT ANSWER**



Explanation:

Option premium consists of two components - intrinsic value and time value. Option premium is the sum of intrinsic value and time value.

Time value is the difference between premium and intrinsic value. ATM and OTM options will have only time value because the intrinsic value of such options is zero.

Q 24. The simultaneous purchase and sale of two different tenors futures contracts in the same underlying is known as a _____ .

- ☐ Limit order
- ☐ Short hedge
- ☒ Spread trade
- ☐ Long hedge

✓ **CORRECT ANSWER**



Explanation:

In case of a Spread Trade, two opposite positions (one long and one short) are taken either in two contracts with same maturity on different products or in two contracts with different maturities on the same product.

Q 25. Delta is the change in option price given a one percentage point change in the risk-free interest rate - State True or False ?

- ☒ False
☐ True

✓ CORRECT ANSWER

Explanation:

Rho is the change in option price given a one percentage point change in the interest rate.

Delta measures the sensitivity of the option value to a given small change in the price of the underlying asset.



Q 26. If the volatility of the underlying stock is decreasing, the premium of call option would _____ .

- ☐ Increase
☒ Decrease
☐ will not change
☐ None of the above

✓ CORRECT ANSWER

Explanation:

Lower the volatility lower the risk and so lower the premium.

The stocks which are highly volatile will have comparatively higher option premiums as there involves a lot of risk trading in such stocks.



Q 27. Investors who believe that the markets will fall are known as Bulls - State True or False?

- ☐ True
☒ False

✓ CORRECT ANSWER

Explanation:

Investors who believe that the markets will fall are known as Bears.

Investors who believe that the markets will rise are known as Bulls.



Q 28. The mark to mark debits for stock options are done on a –

- ☐ fortnightly basis
☐ monthly basis
☒ daily basis
☐ weekly basis

✓ CORRECT ANSWER

Explanation:

In the futures and options market, profits and losses are settled on day-to-day basis – called mark to market (MTM) settlement.

The exchange collects these margins (MTM margins) from the loss making participants and pays to the gainers on day-to-day basis.

Therefore all option positions - for both Index and Stocks are marked to market on a daily basis.



Q 29. If the clearing / trading member fails to pay the dues, the clearing corporation can disable the clearing / trading members from trading - State True or False?

☒ True
☐ False

✓ CORRECT ANSWER

Explanation:

The Clearing Corporation has powers to levy additional margins, special margins, define maximum exposure limits and disable brokers from trading.



Q 30. Losses incurred on derivative transactions on a 'recognized stock exchange' can be carried forward to _____ subsequent assessment year and set off against any other non-speculative business income of the subsequent year.

- ☐ 5
☒ 8
☐ 12
☐ 15

✓ CORRECT ANSWER

Explanation:

Loss incurred on derivatives transactions which are carried out in a recognized stock exchange can be carried forward for a period of 8 assessment years.



Q 31. A Forward Contract _____ .

- ☐ can be cancelled but only after the expiry date
☒ can be cancelled if the counter party also agrees to it
☐ cannot be cancelled
☐ can be cancelled even without the consent of the counter party

✓ CORRECT ANSWER

Explanation:

Forwards are negotiated between two parties and the terms and conditions of contracts are customized.

Any alteration in the terms of the contract or cancellation of the contract is possible if both parties agree to it.



Q 32. Can a Clearing Member give 'Fixed Deposits' as part of liquid assets to the Clearing Corporation?

- ☒ Yes
☐ No

✓ CORRECT ANSWER

Explanation:

Clearing member is required to provide liquid assets which adequately cover various margins and liquid Net-worth requirements.

Liquid Assets can be in the form of Cash, Cash Equivalents (Government Securities, Fixed Deposits, Treasury Bills, Bank Guarantees, and Investment Grade Debt Securities) and Equity Securities.



Q 33. The option premium is adjustable against the exercise price on settlement, if the option is exercised on maturity - State True or False ?

- ☒ True
☐ False

✓ CORRECT ANSWER



Explanation:

The premium paid is adjusted against the exercise price on settlement, if the option is exercised on maturity.

Q 34. A Clearing Member has to deposit with the derivatives segment of the exchange or with the clearing corporation a minimum of _____ .

- ☒ Rs. 50 lakhs
☐ Rs. 100 lakhs
☐ Rs. 150 lakhs
☐ Rs. 20 lakhs

✓ CORRECT ANSWER



Explanation:

A Clearing Member has to deposit Rs. 50 lakhs with the clearing corporation which forms part of the security deposit of the Clearing Member.

Q 35. When a seller SHORT SELLS a stock, it means _____ .

- ☐ He has more than a months time to deliver the stock which he sold
☐ He owns the stock he is supposed to deliver
☐ He has to deliver the stock within a short time
☒ He does not own the stock he is supposed to deliver

✓ CORRECT ANSWER



Explanation:

Selling Short means Seller does not own the stock he is supposed to deliver.

He has done a sale trade because he expects the price to fall and has to buy back the stock (either with a profit or loss) before the end of trading on that day.

Q 36. The strategy of buying a put option on a stock you are owning is known as _____ .

- ☐ calendar spread
☐ aggressive put
☒ protective put
☐ Straddle

✓ CORRECT ANSWER



Explanation:

Any investor in stocks always runs the risk of a fall in prices and thereby reduction of portfolio value.

By buying put options, the investor is effectively taking a bearish view on the market and if his view turns right, he will make profits on long put, which will be useful to negate the MTM losses in the cash market portfolio.

Q 37. State True or False - Scarcity of underlying commodity will generally cause a rise in its futures price.

- ☒ True
☐ False

✓ CORRECT ANSWER

Explanation:

Generally, a shortage / scarcity of any commodity will lead to a rise in the spot as well as futures prices.

For eg. A drop in the manufacturing of oil by OPEC countries will lead to a rise in the international oil prices.



Q 38. At which price can a trader place a bid or offer for a scrip?

- ☒ At a price which is within the daily circuit filter limits
☐ At a price which the trader wishes
☐ At a price negotiated between the exchange and the member
☐ At a price which the trader deems fit

✓ CORRECT ANSWER

Explanation:

The buy or sell price cannot be any price which the trader deems fit. It has to be within the daily circuit filter limits set by the exchange.



Q 39. A decrease in the interest rates will lead to _____.

- ☒ Increase the premium on the put option
☐ Decrease the premium on the put option
☐ Expires the put options immediately
☐ No effect on put options

✓ CORRECT ANSWER

Explanation:

Low interest rates means low cost of capital and this will result in a decrease in the value of a call option and an increase in the value of a put option.



Q 40. What will be the value of one lot of ABC futures contract if the price is Rs. 3200 and the contract size is 150 ?

- ☐ Rs.240000
☐ Rs.320000
☐ Rs.540000
☒ Rs.480000

✓ CORRECT ANSWER

Explanation:

Value of a futures contract is the price multiplied by the contract size.

In the above question :

$3200 \times 150 = \text{Rs.}480000$



Q 41.

A Professional Clearing member of derivatives segment _____ .

- ☐ should also be a member of the cash segment
- ☐ should also become a member of the cash segment within 2 years
- ☐ provides trading facility to its clients
- ☒ does not have any trading rights

✓ CORRECT ANSWER

Explanation:

Professional clearing member is not a Trading Member of the exchange and does not have trading rights.



Q 42.

When the price of a future contract increases, the margin account _____ .

- ☐ of the buyer of futures contract will be credited for the gain
- ☐ of the seller of futures contract will be debited for the loss
- ☒ Both 1 and 2
- ☐ None of the above

✓ CORRECT ANSWER

Explanation:

The buyer of futures will have a notional gain and so his margin account will be credited by the notional gain amount.

The seller of futures will have a notional loss if the price rises and his margin account will be debited by the notional loss amount.



Q 43.

Theta is a measure of the sensitivity of an option price to changes in market volatility. - State True or False?

- ☐ True
- ☒ False

✓ CORRECT ANSWER

Explanation:

Theta : It is a measure of an option's sensitivity to time decay. Theta is the change in option price given a one-day decrease in time to expiration.

Vega : This is a measure of the sensitivity of an option price to changes in market volatility.



Q 44.

When the strike price increases, the premium on call option decreases - State True or False?

- ☒ True
- ☐ False

✓ CORRECT ANSWER

Explanation:

The higher strike price would have a lower call option premium because the intrinsic value is low or nil.



Q 45. You sold one ABC stock futures contract at Rs.268 and the lot size is 1,500. What is your profit (+) or loss (-), if you purchase the contract back at Rs.274?

- ☐ +9000
- ☐ +18000
- ☒ -9000
- ☐ -18000

✓ CORRECT ANSWER



Explanation:

When you sell a stock future contract you make a profit if the share price falls or you make a loss if the price rises and you buy back the contract.

In this case, ABC stock futures has risen by Rs. 6 (274 - 268). So there will be a loss.

Rs. 6 x 1500 (Lot size) = Loss of Rs 9000

Q 46. The Intrinsic Value is zero for out-of-the money options but always positive for in-the-money options - State True or False?

- ☒ True
- ☐ False

✓ CORRECT ANSWER



Explanation:

In-the-money options have positive intrinsic value whereas at-the-money and out-of-the-money options have zero intrinsic value. The intrinsic value of an option can never be negative.

Q 47. A stock index like Nifty _____ .

- ☒ is a basket of stocks
- ☐ can be easily manipulated
- ☐ Both 1 and 2
- ☐ None of the above

✓ CORRECT ANSWER



Explanation:

Stock Index like Nifty and Sensex consists of a basket of stocks and so its very difficult / almost impossible to manipulate the index.

Q 48. When a call option on an index is exercised, the option holder will receive from the option writer, cash amount equal to excess of spot price (at the time of exercise) over the strike price of the call option - State True or False?

- ☒ True
- ☐ False

✓ CORRECT ANSWER



Explanation:

A buyer of a Call Option in an index is bullish. On exercise, if the spot price of the index is over and above the strike price at which the buyer had bought the Call, he will receive the difference between the spot price and strike price.

(The buyer had also paid the premium while buying the Call. So his actual profit will be the difference between spot and strike price less the premium paid)

Q 49. There is higher flexibility in fixing forward contract specification as compared to futures contract specifications - State True or False?

- ☒ True
☐ False

✓ CORRECT ANSWER



Explanation:

Futures are standardized contracts introduced by the exchanges. They have certain limitations in the context of limited maturities, limited underlying set, lack of flexibility in contract design and increased administrative costs on account of MTM settlement etc.

Forward contracts are customised between two parties and there is complete flexibility in designing the contract specifications as per mutual consent.

Q 50. What is Tick size?

- ☐ Tick size is the size of the futures contract
☐ Tick size is the maximum permitted movement in the price of the contract
☒ Tick size is the minimum permitted movement in the price of the contract
☐ Tick size is the average of the high and low permitted prices

✓ CORRECT ANSWER



Explanation:

Tick Size is the minimum move allowed in the price quotations.

Q 51. Functions of a Derivative Market include ____ .

- ☐ Improving price discovery based on actual valuations and expectations
☐ Shift of speculative trades from unorganized market to organized market
☒ Both 1 and 2
☐ None of the above

✓ CORRECT ANSWER



Explanation:

Derivatives Market serves following specific functions:

- Derivatives market helps in improving price discovery based on actual valuations and expectations.

- Derivatives market helps in transfer of various risks from those who are exposed to risk but have low risk appetite to participants with high risk appetite. For example hedgers want to give away the risk where as traders are willing to take risk.

- Derivatives market helps shift of speculative trades from unorganized market to organized market. Risk management mechanism and surveillance of activities of various participants in organized space provide stability to the financial system.

Q 52. Who appoints the board members of the Securities Exchange Board of India under the SEBI Act ?

- ☐ Maharashtra Government as SEBI is situated in Mumbai
☐ The President of India
☒ The Central Government
☐ The Stock Exchanges

✓ CORRECT ANSWER



Explanation:

SEBI consists of a Board of Directors who are appointed by the Union Government of India.

Q 53. The expiry day for June series Index Futures on BSE would be _____ .

- ☒ Last Thursday in June
- ☐ Last Thursday in July
- ☐ Last Thursday in August
- ☐ Last Thursday in September

✓ CORRECT ANSWER



Explanation:

On BSE and NSE, the expiry day is the last Thursday of the expiry month. If the last Thursday is a trading holiday, then the expiry day is the previous trading day.

Q 54. A call option gives its holder the right to buy 'any quantity' of the underlying asset from the writer of the call option at a pre-specified price - State True or False ?

- ☐ True
- ☒ False

✓ CORRECT ANSWER



Explanation:

A call option gives its holder the right to buy ONLY THE SPECIFIED QUANTITY (lot size of the option contract) of the underlying asset from the writer of the call option at a pre-specified price.

Q 55. Institutional investors pay lower margins than the individual investors for derivatives trading - State True or False ?

- ☐ True
- ☒ False

✓ CORRECT ANSWER



Explanation:

The margin requirement is same for both individual investors and institutional investors.

Q 56. Generally, other things remaining the same - American options value is lower than that of European options - True or False?

- ☐ True
- ☒ False
- ☐ The information given is inadequate
- ☐ It depends on market condition

✓ CORRECT ANSWER



Explanation:

American options are generally valued higher than European options.

American options allow option holders to exercise the option at any time prior its maturity date, thus increasing the value of the option to the holder relative to European options, which can only be exercised at maturity.

Q 57. A short position in a PUT option can be closed out by taking a long position in a same PUT option - State True or False?

- ☐ False
- ☒ True

✓ CORRECT ANSWER



Explanation:

A short position in a PUT option can be closed out by taking a long position in a same PUT option with same exercise date and exercise price.

Q 58. The initial margin in derivatives market depends on the volatility of the underlying market. Usually _____ .

- ☐ Higher the volatility, Lower the initial margin
- ☒ Higher the volatility, Higher the initial margin
- ☐ Lower the volatility, Higher the initial margin
- ☐ None of the above

✓ CORRECT ANSWER



Explanation:

If the stock is very volatile it could result in losses to the trader in a short period of time. So to safeguard the trading member and the trader, higher initial margin are levied on volatile stocks.

Q 59. In normal market, a forward contract having a longer time to maturity trades at a higher price - State True or False?

- ☒ True
- ☐ False

✓ CORRECT ANSWER



Explanation:

Longer the maturity of a contract, higher is the interest cost / cost of carry. So, in a normal market, the contracts having longer time to maturity trade at a higher price.

Q 60. Option contracts can be settled _____ .

- ☒ in cash or settled by delivery depending on the terms of the contract
- ☐ in cash or settled by delivery depending on the choice of the buyer
- ☐ in cash or settled by delivery depending on the choice of the seller
- ☐ None of the above

✓ CORRECT ANSWER



Q 61. A Trading Member on derivatives exchange does not have Clearing rights - State True or False?

- ☒ True
- ☐ False

✓ CORRECT ANSWER



Explanation:

Trading Member: They are members of Stock Exchanges. They can trade either on behalf of their clients or on their own account.

Trading cum Clearing Member: A Clearing Member (CM) who is also a Trading Member (TM) of the exchange. Such CMs may clear and settle their own proprietary trades, their clients' trades as well as trades of other TM's & Custodial Participants

Q 62. Exposure levels of Clearing Members are _____ correlated with the Liquid Assets maintained with the Clearing Corporation.

- ☒ Positively
- ☐ Negatively
- ☐ Not related
- ☐ exponentially

✓ CORRECT ANSWER

Explanation:

Exposure levels of Clearing Members are positively correlated with the Liquid Assets maintained with the Clearing Corporation.

More the liquid assets deposited with the Clearing Corporation, higher will be the exposure levels available to the Clearing Member.

Q 63. Vega measures change in delta with respect to change in price of the underlying asset - State True or False?

- ☐ True
- ☒ False

✓ CORRECT ANSWER

Explanation:

Vega is a measure of the sensitivity of an option price to changes in market volatility.

Gamma measures change in delta with respect to change in price of the underlying asset.

Q 64. A fall in the price of Wipro stock increases the value of the Wipro call option - State True or False?

- ☐ True
- ☒ False

✓ CORRECT ANSWER

Explanation:

In normal market, price of a call option rises with a rise in the underlying stock price and the premium falls if the price of the underlying stock falls.

So, if the price of Wipro falls, the value of Wipro call option will also fall.

Q 65. In general terms, if the number of participants in a market are more, the liquidity will be low - State True or False?

- ☐ True
- ☒ False

✓ CORRECT ANSWER

Explanation:

Liquidity in the context of stock market means a market where large orders are executed without moving the prices.

So if there are more the participants, higher should be the liquidity.

Q 66.

The holder of a long position in a PUT option will gain if the price of the underlying asset _____ .

- ☐ Increases
- ☒ Decreases
- ☐ Does not change
- ☐ If the option expires worthless

✓ **CORRECT ANSWER**



Explanation:

The buyer of a Put Option is bearish. He believes that the price of the underlying will fall.

When the price falls, the value of the put option rises. So he will benefit only if the price decreases.

Q 67.

Which of the below statement(s) hold true for Futures Contract?

- ☐ Futures Contracts are settled through clearing corporation of the exchange
- ☐ Futures Contracts are standardized contracts
- ☐ Futures Contracts are traded on an exchange
- ☒ All of the above

✓ **CORRECT ANSWER**



Explanation:

Futures contract are standardised in terms of size of the contract, time to expiry etc. They are always traded on a recognised exchange and the settlement is through a clearing corporation.

Q 68.

Which one of these complaints against a trading member can an Exchange take up for redressal?

- ☐ Complaints regarding land dealings between a client and trading member
- ☐ Complaints in respect of transactions which are already subject matter of Arbitrage proceedings
- ☐ Claims regarding notional loss for the disputed trade
- ☒ Claims regarding unauthorized transaction in the client's account

✓ **CORRECT ANSWER**



Explanation:

Complaints against trading members on account of the following can be taken by an Exchange for redressal :

- **Non-receipt of funds / securities**
- **Non- receipt of documents such as member client agreement, contract notes, settlement of accounts, order trade log etc.**
- **Non-Receipt of Funds / Securities kept as margin**
- **Trades executed without adequate margins**
- **Delay /non – receipt of funds**
- **Squaring up of positions without consent**
- **Unauthorized transaction in the account**
- **Excess Brokerage charged by Trading Member / Sub-broker**
- **Unauthorized transfer of funds from commodities account to other accounts etc.**

Q 69.

The securities or money deposited by clients _____ .

- ☐ will be as per brokers rules and regulations
- ☐ can be used as per the decision of Clearing Corporation and the broker
- ☐ can be attached for meeting broker's obligation on his proprietary account
- ☒ cannot be attached for meeting broker's obligation on his proprietary account

✓ CORRECT ANSWER



Explanation:

The securities or money deposited by clients cannot be attached for meeting broker's obligation on his proprietary account.

The broker has to maintain separate client bank account for segregation of client money.

Also brokers should keep margins collected from clients in a separate bank account.

Q 70.

Mr. Sunil places a stop loss sell order on ABC stock with a trigger price of Rs. 450. The current market price of ABC stock is Rs 470. The order will be released for execution _____

- ☐ As soon as the market price of ABC touches Rs. 470
- ☒ As soon as the market price of ABC touches Rs. 450
- ☐ As soon as the order is placed in the system
- ☐ If similar orders are available in the order book at Rs. 450

✓ CORRECT ANSWER



Explanation:

A stop-loss order gets activated when the trigger price is reached and enters the market as a market order or as a limit order.

In the above question, the trigger price is Rs. 450. So this order will get released in the system for execution as soon as the price of Rs. 450 is reached.

Q 71.

In Index futures, an open position can be settled by _____ .

- ☐ delivery on maturity
- ☒ cash settlement on maturity
- ☐ either by cash or delivery on maturity
- ☐ exchange for gold on maturity

✓ CORRECT ANSWER



Explanation:

Index futures are always cash settled on maturity i.e. the difference between trade price and settlement price is received or paid.

- Q 72. As per news, the Government can lose a vote of confidence and this can affect the stock markets pretty badly. If you are an active trader, what is the ideal step you will take?
- ☐ Buy index futures
 - ☒ Sell index futures
 - ☐ Double your portfolio holdings
 - ☐ Buy Blue Chip shares

✓ CORRECT ANSWER



Explanation:

In case of a negative news like fall of a Government, the stock markets generally fall. Its difficult to judge which stocks will fall more. So, the best way is to short the index futures as the index is bound to fall in response to a negative news and the active trader can profit from it.

- Q 73. When ordinary cash dividends are declared, Call Option values will decrease - State True or False ?

- ☒ True
- ☐ False

✓ CORRECT ANSWER



Explanation:

Cash dividends issued by stocks have a impact on their option prices.This is because the underlying stock price is expected to drop by the dividend amount on the ex-dividend date.

In case of call options, the values get reduced / discounted by as much as the dividend amount.

Put options get more expensive as the stock price will drop by the dividend amount after the ex-dividend date.

- Q 74. When SEBI has approved the approves bye-laws of a derivative exchange, the exchange is free to introduce futures contracts on any number of stocks and it does not require to go to SEBI every time - State True or False?

- ☒ True
- ☐ False

✓ CORRECT ANSWER



Explanation:

Once SEBI has approved the approves bye-laws / rules etc. of a derivative exchange, the exchange is free to introduce futures contracts on any number of stocks in accordance to the approved rules and it does not have to go to SEBI every time for approval.

- Q 75. In the derivatives market, the mark to market margin is equal to the initial margin - State True or False?

- ☐ True
- ☒ False

✓ CORRECT ANSWER



Explanation:

Mark to Market is a process by which margins are adjusted on the basis of daily price changes in the markets for underlying assets. So this margin is as per the daily price movements.

Initial margin is usually fixed depending on the price volatility. Higher the volatility, higher the initial margin.



Q 76. On final settlement, the buyer/holder of the option will recognise the favourable difference received from the seller/writer as _____ in the profit and loss account.

- ☒ Income
- ☐ Expense
- ☐ Loan
- ☐ Amortization

✓ CORRECT ANSWER



Explanation:

On exercise of the option, the buyer/ holder will receive favourable difference, between the final settlement price as on the exercise/expiry date and the strike price, which will be recognised as INCOME.

Q 77. Mr A sold a put option of strike Rs.300 on ABC stock for a premium of Rs.20. The lot size is 1000. On the expiry day, ABC stock closed at Rs. 250. What is your net profit or loss?

- ☒ -30000
- ☐ 30000
- ☐ 70000
- ☐ -70000

✓ CORRECT ANSWER



Explanation:

Mr. A sold a PUT option, that means he has a bullish or neutral view on PQR stock.

However, ABC stock has fallen by Rs 50 (300 - 250).

Which means he has lost Rs 50.

Since he has sold a PUT, he will receive the premium which is Rs 20.

So his net loss will be Rs 50 (Loss) - Rs 20 (Premium Recd) = Rs 30

Total Loss = Rs 30 x 1000 (lot size) = Rs. 30000

Q 78. The exercise date and expiration date of an European option is _____ .

- ☒ Always the same
- ☐ Always on the 28th of the expiry month
- ☐ always different
- ☐ May be same

✓ CORRECT ANSWER



Explanation:

An European option can only be exercised on the expiry date/day of the contract. So in an European option the exercise date and expiration date is always the same.

An American option can be exercised on any day.

Q 79. In an 'Opening Buy Transaction' the effect will be that of creating or increasing ____ .

- ☐ Arbitrage position
- ☐ Cross position
- ☒ Long position
- ☐ Short position

✓ **CORRECT ANSWER**

Explanation:

Opening a position means either buying or selling a contract, which increases client's open position (long or short).

Opening a Buy transaction means creating or adding LONG positions with a view that the price will increase.



Q 80. What advantage does the screen based trading has over floor trading ?

- ☐ There are no set up costs in screen based trading
- ☒ There is transparency in trade execution and execution price
- ☐ The technology needs are lower
- ☐ There is no need to route the order through an exchange

✓ **CORRECT ANSWER**

Explanation:

Screen based (Trading thro' computers) trading is fully transparent.



Q 82. What does Value-at-risk measures?

- ☐ value of a volatile portfolio
- ☒ Risk level of a financial portfolio
- ☐ Value of illiquid shares portfolio
- ☐ Index PE value

✓ **CORRECT ANSWER**

Explanation:

Value at Risk calculates the expected maximum loss, which may be incurred by a portfolio over a given period of time and specified confidence level.



Q 83. A member has two clients Rohit and Mohit. Rohit has purchased 100 contracts and Mohit has sold 300 contracts in March Tata Steel futures series. What is the outstanding liability (open Position) of the member towards Clearing Corporation in number of contracts?

- ☐ 100
- ☐ 300
- ☒ 400
- ☐ 200

✓ **CORRECT ANSWER**

Explanation:

For a member ie. Stock Broker, the liability will be the sum of all the contracts of all his clients. The contracts cannot be netted in between two clients. So in this case the sum of contracts is $100 + 300 = 400$ contracts.



Q 84. Are Broker-Members allowed on the Clearing Council of the Clearing Corporation of the derivatives segment ?

- ☐ Yes
- ☒ No

✓ CORRECT ANSWER

Explanation:

No, broker members are not allowed on the Clearing Council of the Clearing Corporation of the derivatives segment.

Q 85. One of the important duties of a trading member is to assess the financial soundness, genuineness and background of a new client - True or False ?

- ☒ True
- ☐ False

✓ CORRECT ANSWER

Q 86. Mr. Kailash has bought 200 shares of ABC Industries Ltd. at Rs.850 per share. He expects the price to go up but wants to protect himself if the price falls. He does not want to lose more than Rs. 4000 on this long position. What should he do?

- ☐ Place a limit buy order for 200 shares Rs.830 per share
- ☐ Place a limit sell order for 200 shares Rs. 830 per share
- ☒ Place a stop loss sell order for 200 shares Rs.830 per share
- ☐ Place a limit buy order for 200 shares at Rs.870 per share

✓ CORRECT ANSWER

Explanation:

Mr. Kailash will make a loss if the price of ABC Industries Ltd. falls. His loss bearing capacity is Rs 4000. Therefore $4000 / 200 \text{ shares} = \text{Rs } 20$.

So if the shares fall by Rs 20, he will make a loss of Rs 4000.

$850 - 20 = 830$. Therefore 830 will be his stoploss price and he will place a stoploss order at Rs 830.

Q 87. Of the below mentioned options, in which option is the strike price better than the market price and therefore it is profitable to exercise the option ?

- ☐ At-the-money option
- ☐ Out-of-the money option
- ☒ In the money option
- ☐ None of the above

✓ CORRECT ANSWER

Explanation:

In an In The Money Option, the strike price is better than market price. Such options have both Intrinsic Value and Time Value.

Q 88. What does selling short a stock means ?

- ☐ Seller owns the stock he is supposed to deliver
- ☐ Seller has sufficient time to deliver the stock which he sold
- ☒ Seller does not own the stock he is supposed to deliver
- ☐ Seller has to deliver the stock within a short time

✓ CORRECT ANSWER

Q 89.

All the trades and open positions on a derivative exchange are guaranteed by the Clearing Corporation and it becomes a legal counter party.

- ☒ True
☐ False

✓ CORRECT ANSWER

Explanation:

Clearing Corporation or the Clearing House is responsible for clearing and settlement of all trades executed on the F&O Segment of the Exchange.

Clearing Corporation acts as a legal counterparty to all trades on this segment and also guarantees their financial settlement.

The Clearing and Settlement process comprises of three main activities, viz., Clearing, Settlement and Risk Management.



Q 90.

Mark-to-Market margins are collected on a _____ basis.

- ☐ monthly
☐ weekly
☐ bi weekly ie. Mondays and Thursdays
☒ daily

✓ CORRECT ANSWER

Explanation:

In the futures market, profits and losses are settled on day-to-day basis – called mark to market (MTM) settlement.

The exchange collects these margins (MTM margins) from the loss making participants and pays to the gainers on day-to-day basis.



Q 91.

STT means _____ .

- ☐ Stock Trading Tax
☐ Stock Transaction Tax
☒ Securities Transaction Tax
☐ Securities Trading Tax

✓ CORRECT ANSWER

Explanation:

Securities Transaction Tax (STT) is payable by the Trading Members / Brokers on the stock market transactions and this is collected from their clients.



Q 92. Of the below options, when will the April index future contract be introduced on NSE ?

- ☐ On the 1st trading day after last Thursday in March
- ☐ On the 1st trading day after last Friday in March
- ☒ On the 1st trading day after last Thursday in January
- ☐ On the 1st trading day after last Friday in January

✓ CORRECT ANSWER

Explanation:

There are always 3 contracts running. So for eg. we will have Jan-Feb-Mar contracts trading in January.

When January contracts expire on last Thursday of January, on Friday the April contracts will be introduced and so we will have Feb-Mar-April contracts.



Q 93. Main objectives of Trade Guarantee Fund (TGF) are :

- ☐ To protect the interest of the investors in securities.
- ☐ To inculcate confidence in the minds of market participants.
- ☐ To guarantee settlement of bonafide transactions of the members of the exchange.
- ☒ All of the above

✓ CORRECT ANSWER



Q 94. Initial Margin is –

- ☐ The margin which is paid when a trading member starts his business
- ☐ The Margin which is paid at the time of buying shares in the spot market.
- ☐ The margin which a trading member needs to pay when applying for membership
- ☒ The margin which is paid at the time of entering futures contract

✓ CORRECT ANSWER

Explanation:



The amount one needs to deposit in the margin account at the time entering a futures contract is known as the initial margin.



Q 95. In India, the derivatives product can be traded by _____ .





- ☐ Brokers of NSE / BSE
- ☐ SEBI registered brokers
- ☒ SEBI registered brokers for trading in derivatives
- ☐ All of the above

✓ CORRECT ANSWER

Explanation:

Special permission has to be taken from SEBI for trading in derivatives.



- Q 96. Mr. Banerjee sells a put option of a higher strike price and buys a put option of a lower strike price, both on the same share and same expiration. This strategy is called _____.
- ☐ Bearish Spread
 - ☒ Bullish Spread
 - ☐ Calendar Spread
 - ☐ Straddle
- ✓ CORRECT ANSWER 
- Explanation:**
- Bullish Spread using Puts** - the call on the market is bullish, hence, the trader would like to short a put option. If prices go up, trader would end up with the premium on sold puts.
- However, in case prices go down, the trader would be facing risk of unlimited losses. In order to put a floor to his downside, he may buy a put option with a lower strike. While this would reduce his overall upfront premium, benefit would be the embedded insurance against unlimited potential loss on short put. This is a net premium receipt strategy.
- Q 97. Generally the Future prices converge to Spot prices on expiry day - True or False?
- ☐ False
 - ☒ True
- ✓ CORRECT ANSWER 
- Explanation:**
- Future Price essentially means Spot Price + Cost of Carry** ie. interest cost etc.
- On the expiry day** ie. the last day, the cost of interest etc. will be nil, so the Future Price and Spot price should ideally be same.
- Q 98. Beta is a measure of systematic risk of a security that cannot be avoided through diversification.
- ☒ True
 - ☐ False
- ✓ CORRECT ANSWER 
- Explanation:**
- Beta is a measure of systematic risk of a security that cannot be avoided through diversification.** Hedge against the systematic risk mainly depends upon the relationship of portfolio with the index, which is measured by beta.
- Q 99. You have bought a CALL of Ambuja Cements of Strike price of Rs 200 of January. To close the position, you will Sell a CALL of same strike price of January. True or False ?
- ☐ False
 - ☒ True
- ✓ CORRECT ANSWER 
- Explanation:**
- When you buy a CALL option, it can only be squared up by selling the same CALL option.**

Q
100.

A long position in a PUT option can be closed by taking a short position in CALL option.

- ☐ True
☒ False

✓ CORRECT ANSWER

Explanation:

A long position in any option can be closed by selling that option and not in any other way.

So a long position in a PUT option can be closed by selling that PUT option.

